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# Basics of School Funding

Presentation to the School Renewal Commission

by Madalyn Quinlan, Chief of Staff

September 8, 2003

This Powerpoint presentation is available on the OPI website at [http:// www.opi.state.mt.us/schoolfinance/forms.html](http://www.opi.state.mt.us/schoolfinance/forms.html).

# School Finance Overview

## 1. Budgeted/Non-budgeted Funds

## 2. Funds:

- Governmental
  - General Fund
  - Special Revenue
  - Debt Service
  - Capital Projects
- Proprietary
- Fiduciary



# Budgeted/Non-Budgeted Funds

## 1. Budgeted Funds

- District trustees adopt expenditure budget annually
- Revenue includes tax levies
- Examples:
  - General
  - Transportation
  - Retirement



# Budgeted/Non-Budgeted Funds

## 2. Non-Budgeted Funds

- District can spend up to cash balance in fund
- No tax revenue
- Examples:
  - Food Service
  - Miscellaneous Programs
  - Extracurricular



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# General Fund

- Authorized by 20-9-301, MCA
- Purpose: To finance general maintenance and operational costs of a district not financed by other funds
- Budgeted Fund (Tax Levy)
- Funding Model
- Funding Sources



# Principles of Equalization

Basis for HB 667 (L.1993)

- Limit expenditure disparities to 25% from lowest to highest spending districts
- Recognize school district size and special education costs as educationally-relevant reasons for expenditure disparities
- Once a district is within the equalized “window,” it must stay within the window

# ANB = Average Number Belonging

FALL ENROLLMENT  
(1st Monday in October)

Less  $\frac{1}{2}$   
Kindergartners

Less  $\frac{1}{2}$  part-time  
students

SPRING ENROLLMENT  
(February 1)

Less  $\frac{1}{2}$   
Kindergartners

Less  $\frac{1}{2}$  part-time  
students

Total of 2 counts

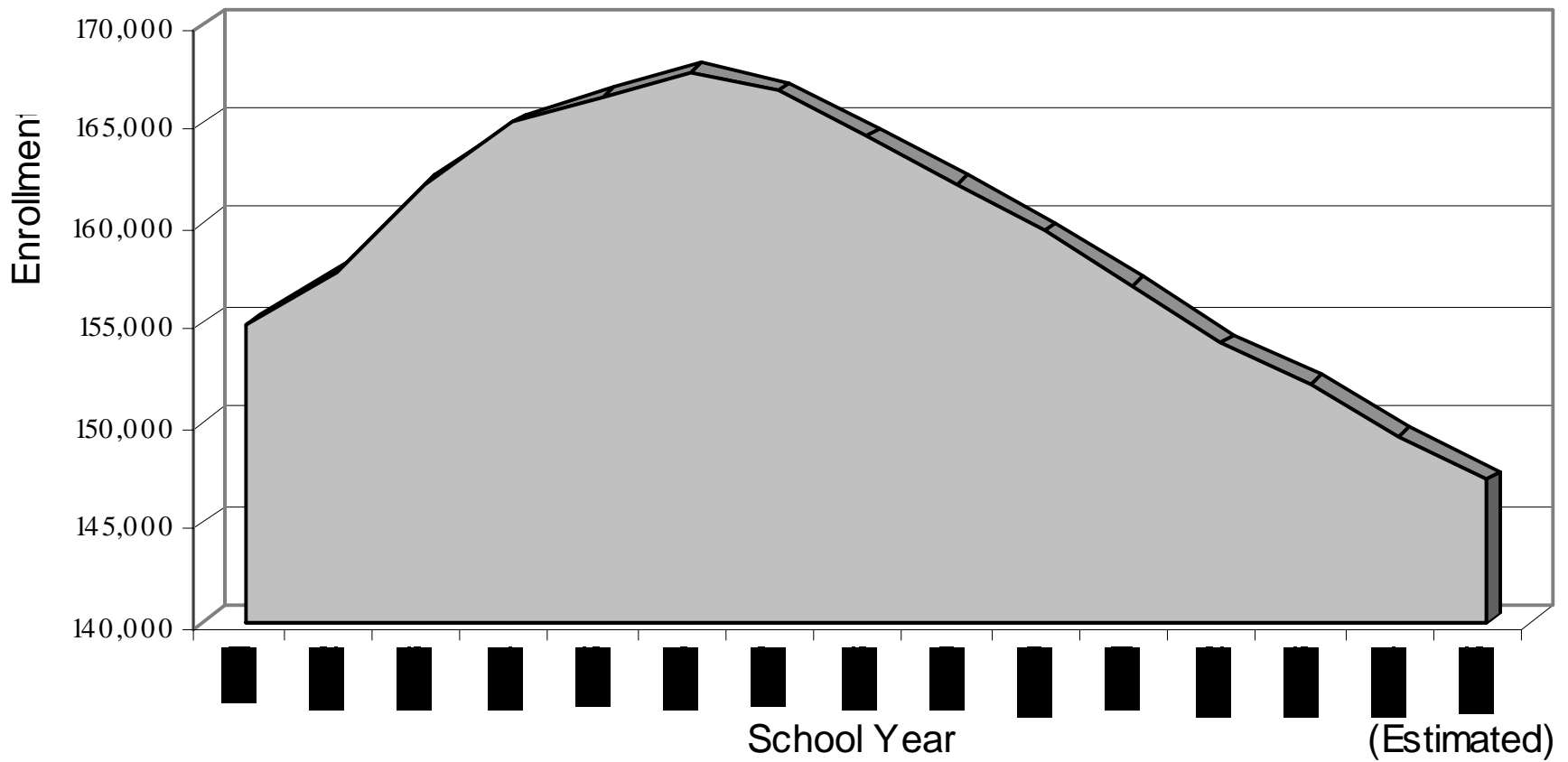
Divided by 2

$$\text{Times } \frac{180 + \text{PIR Days}}{180} = \text{ANB}$$



# K-12 Student Enrollment

Montana School Years 1991-2005



# Budget Elements

- Basic Entitlement  
    \$\$ per District
- Per Student Entitlement  
    \$\$ per student
- State Special Education Payment
- Local Special Education Payment

# Budget Elements (FY 04)

- \$\$ per District
  - Elementary      \$ 19,456
  - High School      \$216,171
- \$\$ per Student
  - Elementary
    - \$3,949-.20/ANB to 1,000 ANB
  - High School
    - \$5,262 -.50/ANB to 800 ANB
- Special Education Block Grant
  - Instructional              \$122.67/ANB
  - Related-Services        \$ 40.89/ANB

\$\$ per District

\_\_\_\_\_

\$\$ per Student

+

\_\_\_\_\_

200% of Spec. Ed.

\$\$ per Student

+

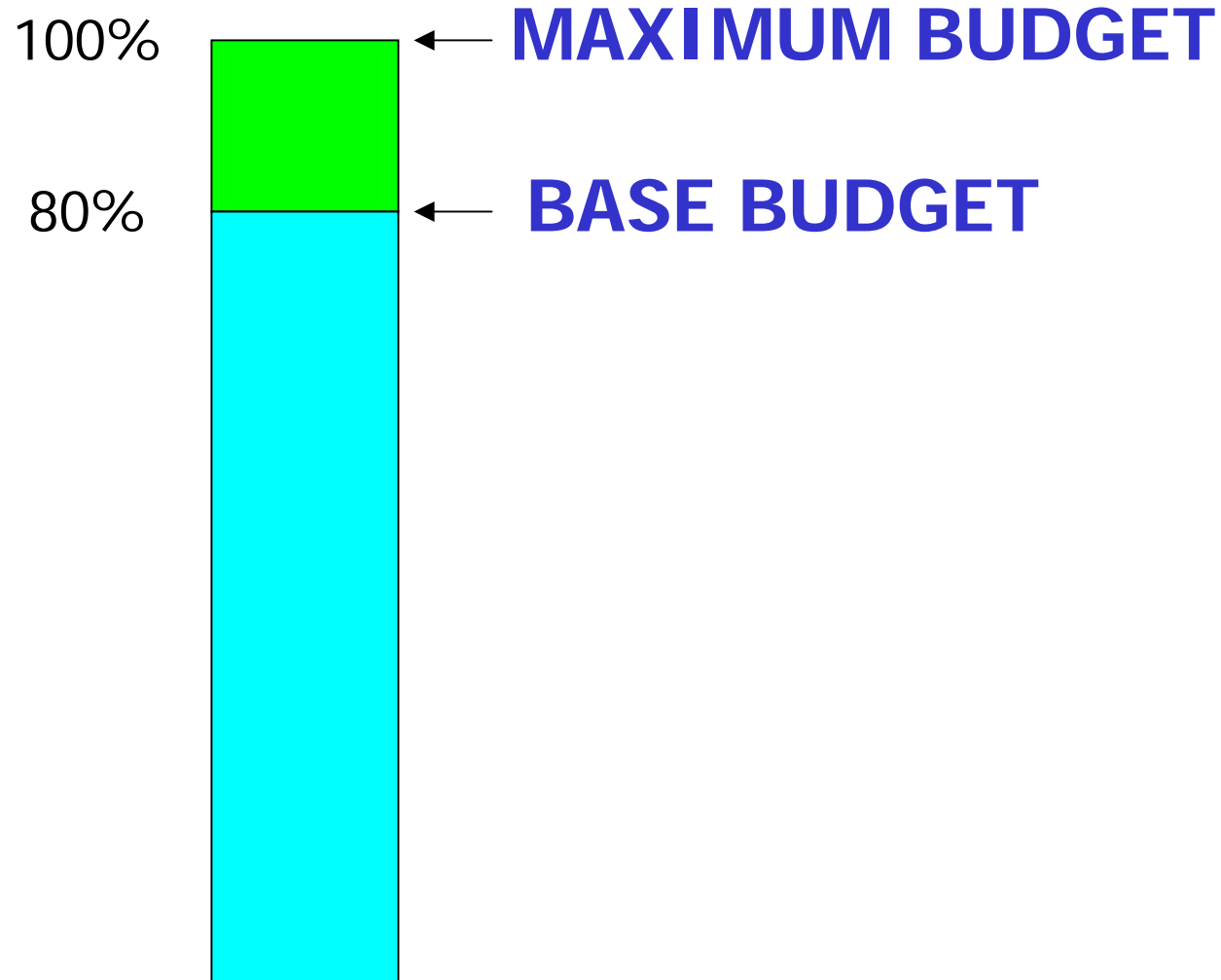
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MAXIMUM BUDGET

**100%**

# General Fund Budget

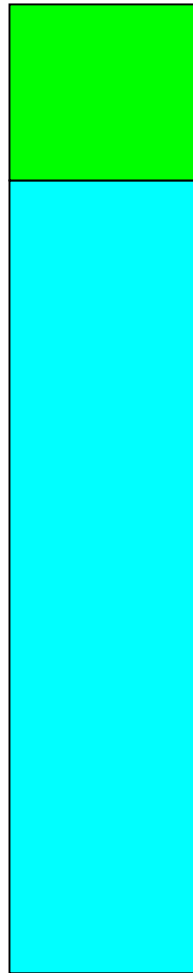


# General Fund Budget

EQUALIZED RANGE  
(80-100%)

100%

80%



**MAXIMUM BUDGET**

**BASE BUDGET**

**Maximum**

**“Disequalized”**



A district may adopt a budget that exceeds the Maximum in limited cases.

**“Equalized” Range**

In an effort to equalize school funding in Montana, state law encourages schools to adopt general fund budgets within an “equalized” range between the “BASE” and “Maximum.”

**BASE**

Minimum  
budget  
allowed

The BASE is the minimum legal budget for a district.

**Maximum**

**Over-BASE**

**BASE**

**BASE**

**80% Per-Student Entitlement**

**80% Basic Entitlement**

**140% Spec Ed Allowable Cost  
Funding (State)**

*The BASE is 80% of the Maximum entitlements,  
plus 140% of the state special education funding.*



**Maximum**

**Maximum**

Basic Entitlement

Per-Student Entitlement

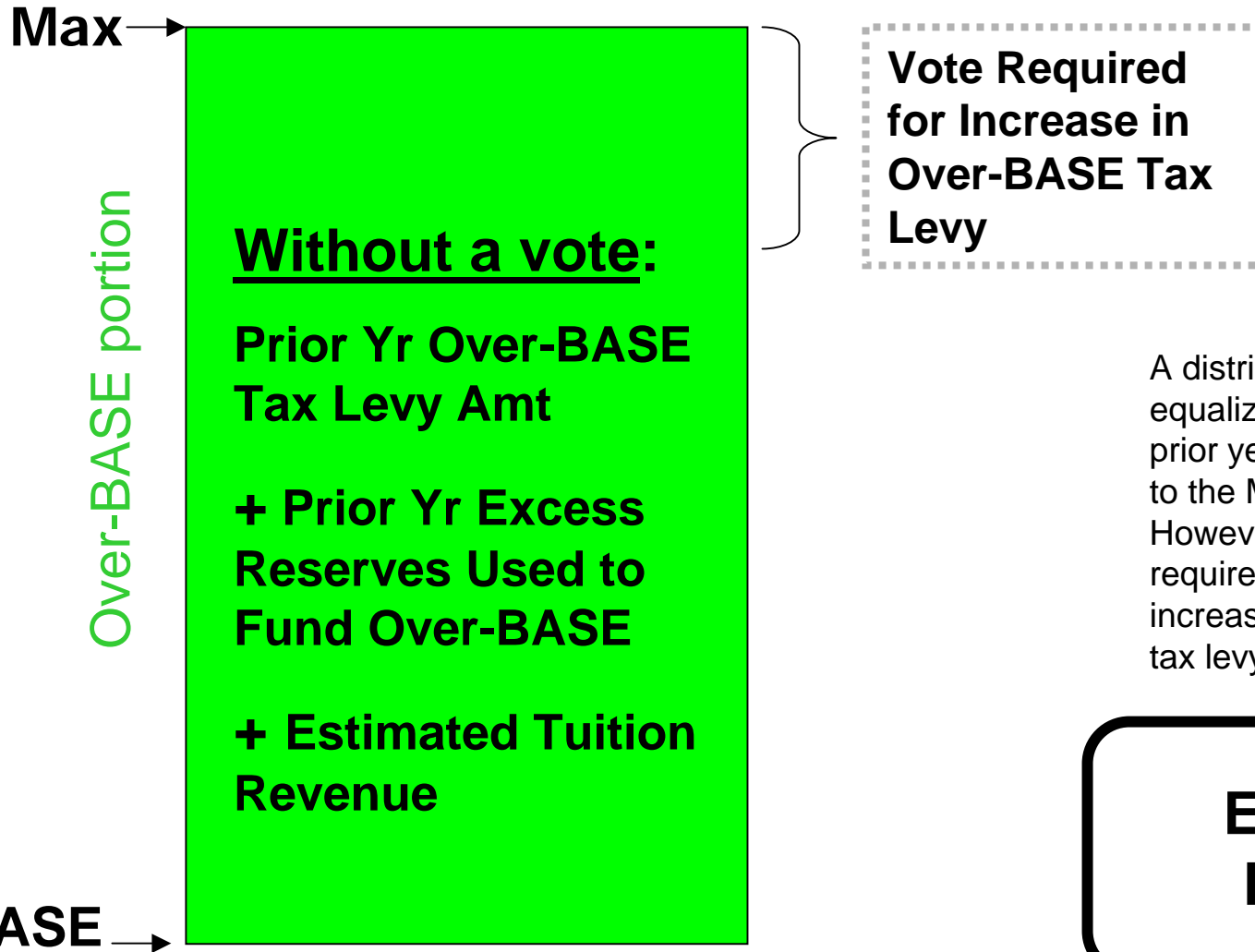
Up to 200% of the State  
Special Education Payment

**BASE**

**Over-BASE**

*The Maximum for a district is based on state entitlements that are driven by enrollment. From 175% to 200% of the state funding for special education is also included in the Maximum, depending on the district's previous costs of special education.*

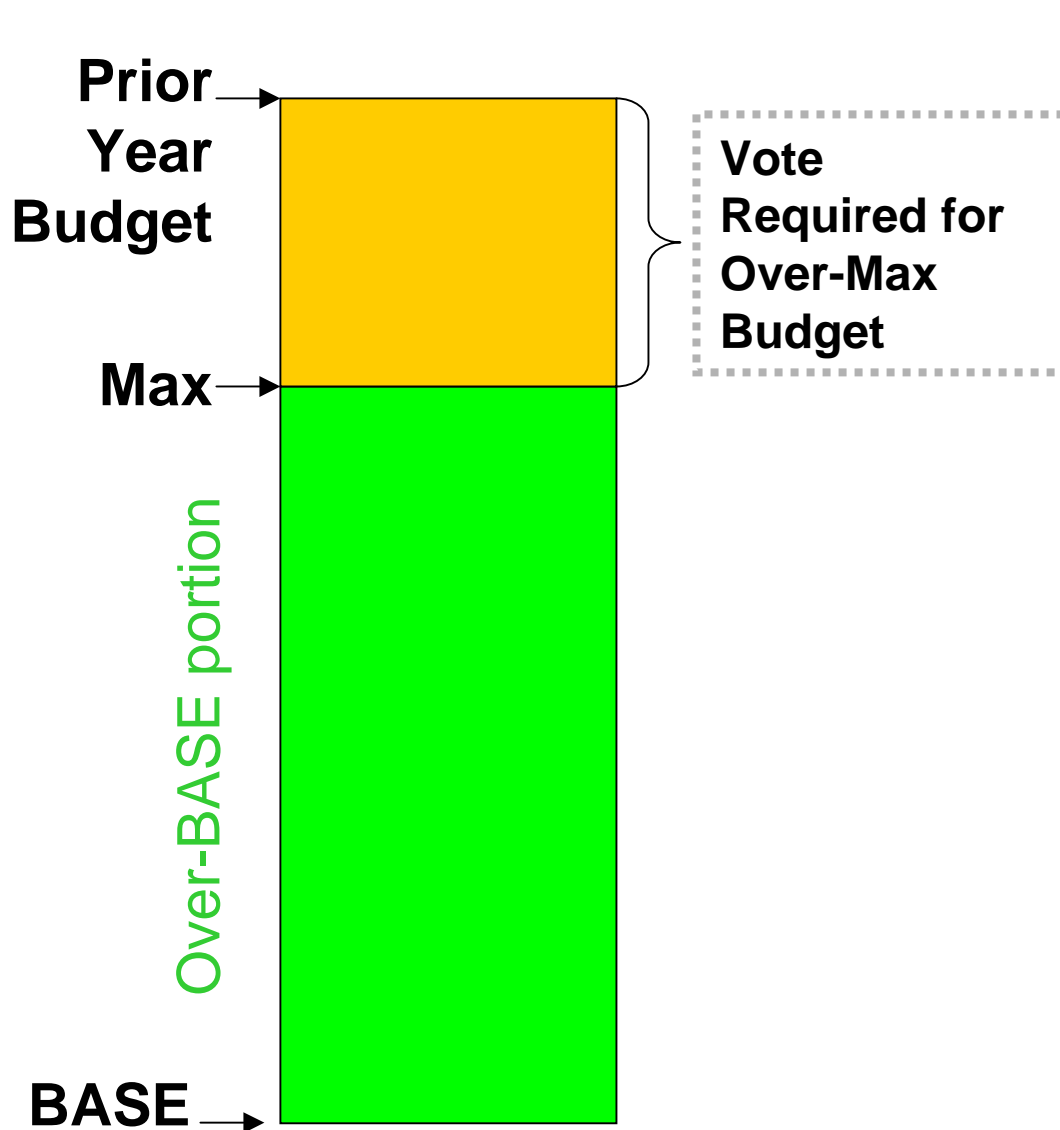
# Voting Requirements



A district that adopted an equalized budget in the prior year may budget up to the Maximum. However, voter approval is required in order to increase the Over-BASE tax levy.

**Equalized District**

# Voting Requirements: Soft Caps



--Requires 5 year plan  
to budget at Max by  
end of 5<sup>th</sup> year

A district with a prior year budget that exceeds the ensuing year's Maximum budget may adopt the prior year budget if voters approve the Over-Maximum amount. The district must adopt a budget no higher than Maximum by the sixth year.

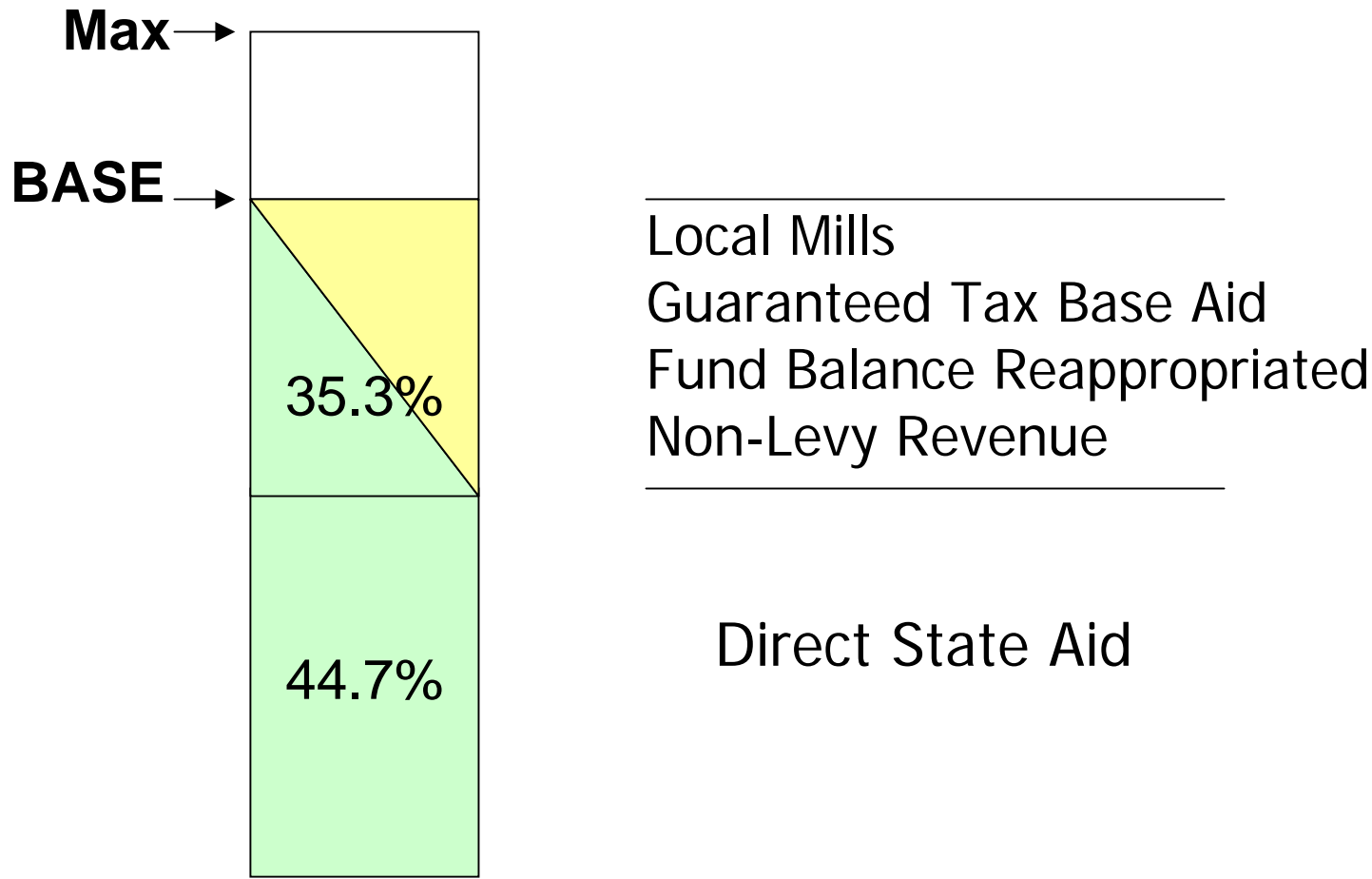
**“Over-Max”  
District**

# Trend since 1995

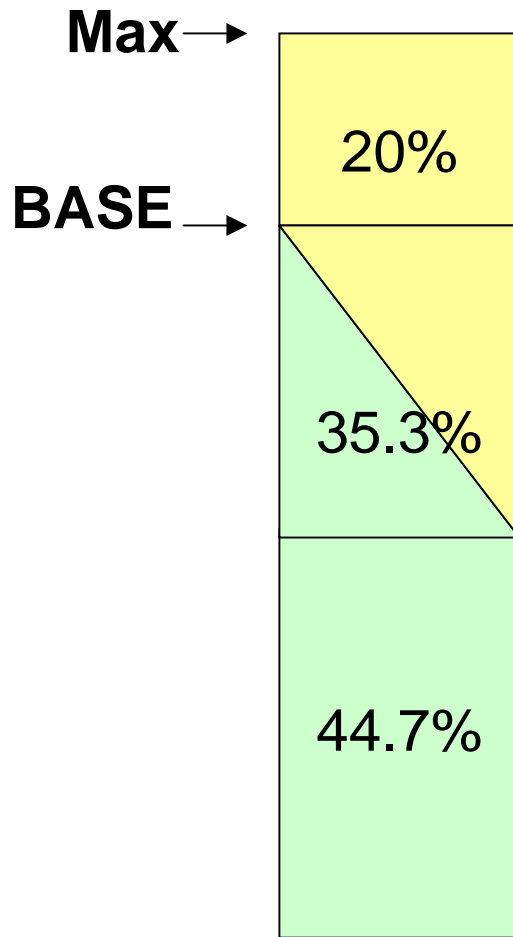
## Number of Districts

Percent Group	1995	1997	1999	2001	2002	2003
Below Base	106	41	0	0	0	0
Base	70	84	112	95	76	66
80 to 90%	129	123	98	96	92	72
90 to 97%	60	82	79	72	68	71
97 to Max	48	96	138	147	128	122
Over Max	58	37	29	38	80	108
Grand Total	471	463	456	448	444	439

# Funding the BASE Budget



# Funding the Maximum Budget



Local Mills + Tuition + Excess Reserves

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Local Mills

State Guaranteed Tax Base Aid

Fund Balance Reappropriated

Non-Levy Revenue

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Direct State Aid

# How Guaranteed Tax Base Works

- State Taxable Value \$1,687,850,391
- State guarantees that for every dollar of the BASE budget that the district must fund locally, there will be \$18.16 of taxable valuation at the elementary level and \$27.99 at the high school level to fund that budget.
- The GTB level is recalculated each year.

# Example: Havre Elementary

## FY 04 GTB Ratio

Elementary districts:	\$18.16
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## Havre Elementary

GTB Budget area:	\$ 2,024,326
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Taxable Valuation:	\$ 15,010,535
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Guaranteed Tax Base:	\$ 38,367,261
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FY04 GTB subsidy/mill:	\$ 23,357
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# Non-Levy Revenue:

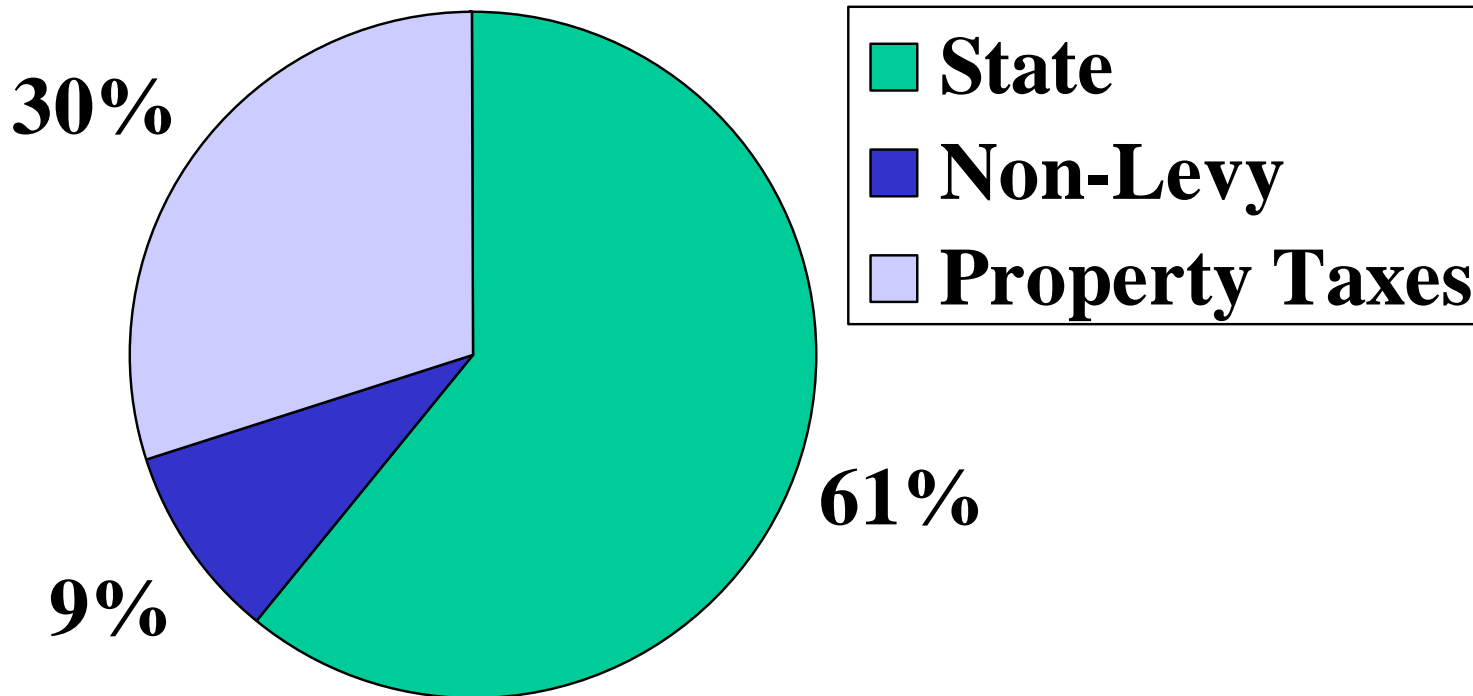
- Schools must budget non-levy revenue
- Must include non-levy revenue BEFORE levying property taxes
- Examples of non-levy revenue include:
  - Investment earnings
  - State Reimbursements (for tax law changes)
  - Oil, gas and coal payments

# Fund Balance Reappropriated

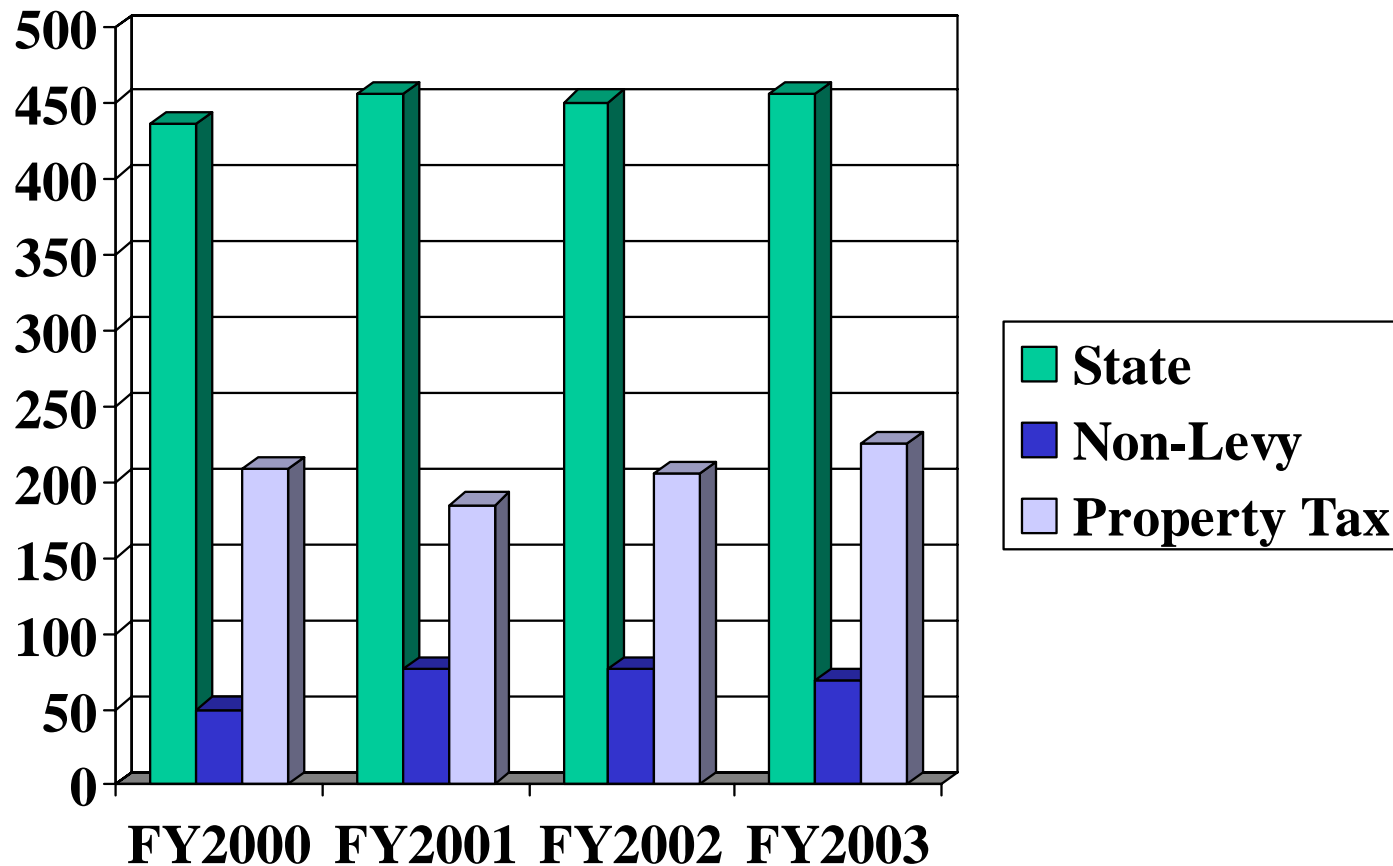
- Determine the fund balance in the district's general fund as of June 30
- Set aside up to 10% for an operating reserve for the ensuing year
- Set aside "excess reserves" (as defined in 20-9-104, MCA)
- Remaining fund balance must be used to fund the budget for the ensuing year BEFORE property taxes may be levied

# School General Fund Revenues

**FY 2002-2003**



# School General Fund Revenues



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# Special Revenue Funds

**Purpose:** Account for proceeds of revenue sources that must be used for specified purposes.

- Budgeted or non-budgeted



# **Special Revenue Funds**

**Transportation Fund: For financing the maintenance and operation of district's school buses, private carrier contracts, and any amount necessary for the purchase, rental, or insurance of school buses or operation of the transportation program.**



# Pupil Transportation

- County transportation committee approves bus routes
- Each district calculates its transportation cost
- Budget needs given to County Supt.
- Total \$ needed is calculated
- Commissioners set county levy for 50% of on-schedule costs
- State pays 50% of on-schedule costs
- District levies excess on district taxpayers
- Levy is made permissively (no vote)



# County Retirement

- Funds school district cost of employee retirement
- Each district calculates cost
- Budget needs given to County Supt.
- Total \$ needed is calculated
- Commissioners set county levy
- Levy is made permissively (no vote)
- State guaranteed tax base support of mills

# County Retirement Guaranteed Tax Base Aid

- County property tax levy is matched by state GTB aid
- Supported by guaranteed tax base
  - State mill value per ANB guarantee
  - Rich counties get nothing
  - Each EL mill raises \$20.19/ANB (FY04)
  - Each HS mill raises \$40.55/ANB (FY04)

# Other Special Revenue Funds

## Budgeted:

- Bus Depreciation: Financing replacement buses
- Tuition: Costs of students who attend school outside their district
- Others

# Other Special Revenue Funds

## Non-Budgeted:

- Food Service: School food service operations
- Miscellaneous Programs: Local, state, and federal grants and reimbursements
- Technology Fund: Purchase and maintain tech equipment and provide tech training
- Others

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# Debt Service Funds

## Debt Service Fund:

- Principal, interest on bonds and Special Improvement Districts (SIDs)
- Bond proceeds
- Budgeted fund with permissive levy

## Judgment Fund:

- Rarely used

# School Facilities Payments

- Available to districts that have sold general obligation bonds
- Debt service mills are matched by state aid in low-wealth districts
- State support is capped
- EL mill value/ANB \$23.36 (FY04)
- HS mill value/ANB \$46.92 (FY04)
- \$8.27 million is appropriated

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# Capital Projects Funds

## Building Fund:

- Insurance proceeds, federal funds, and property sold by district for building and construction projects
- Some bond proceeds
- Non-budgeted fund

## Building Reserve Fund:

- Voter-approved building or construction projects
- Budgeted Fund

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# Proprietary Funds

Used to account for a school district's ongoing organizations and activities which are similar to those often found in the private sector.

- Enterprise
- Internal Service

# Proprietary Funds

## Enterprise Funds

- Provide services primarily to customers outside the district
- Cost of programs recovered entirely through fees and charges
- Examples:
  - Day Care/Preschool
  - Industrial Arts

# Proprietary Funds

## Internal Service Funds

- Provide services primarily to customers within the district
- Accumulate costs related to a program for subsequent distribution within the district
- Examples:
  - Data Processing
  - Purchasing

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# Fiduciary Funds

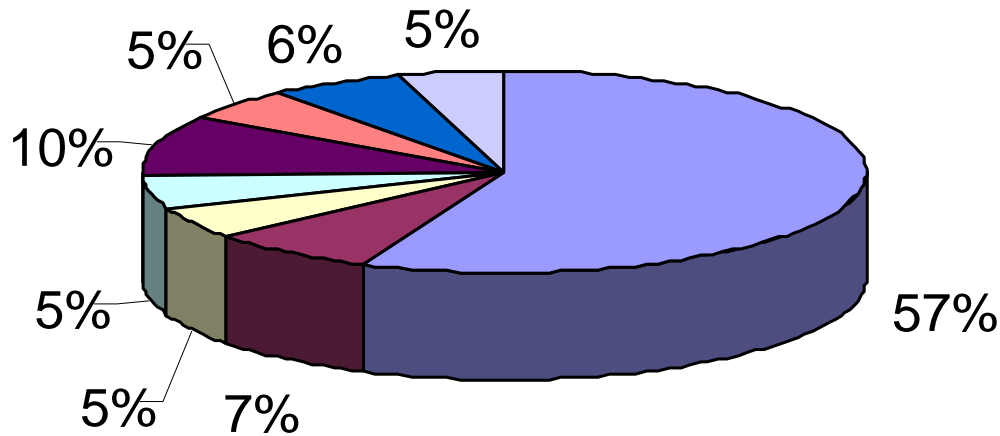
Used to account for assets held by a school district in a trustee capacity for another entity

## Examples

- Extracurricular activities
- Health Self-Insurance
- Cafeteria/Flex Plan

# EXPENDITURE “FUNCTION”

**Items Covered in School District Budgets  
by Relative Weight (1994-2001 Avg.)**

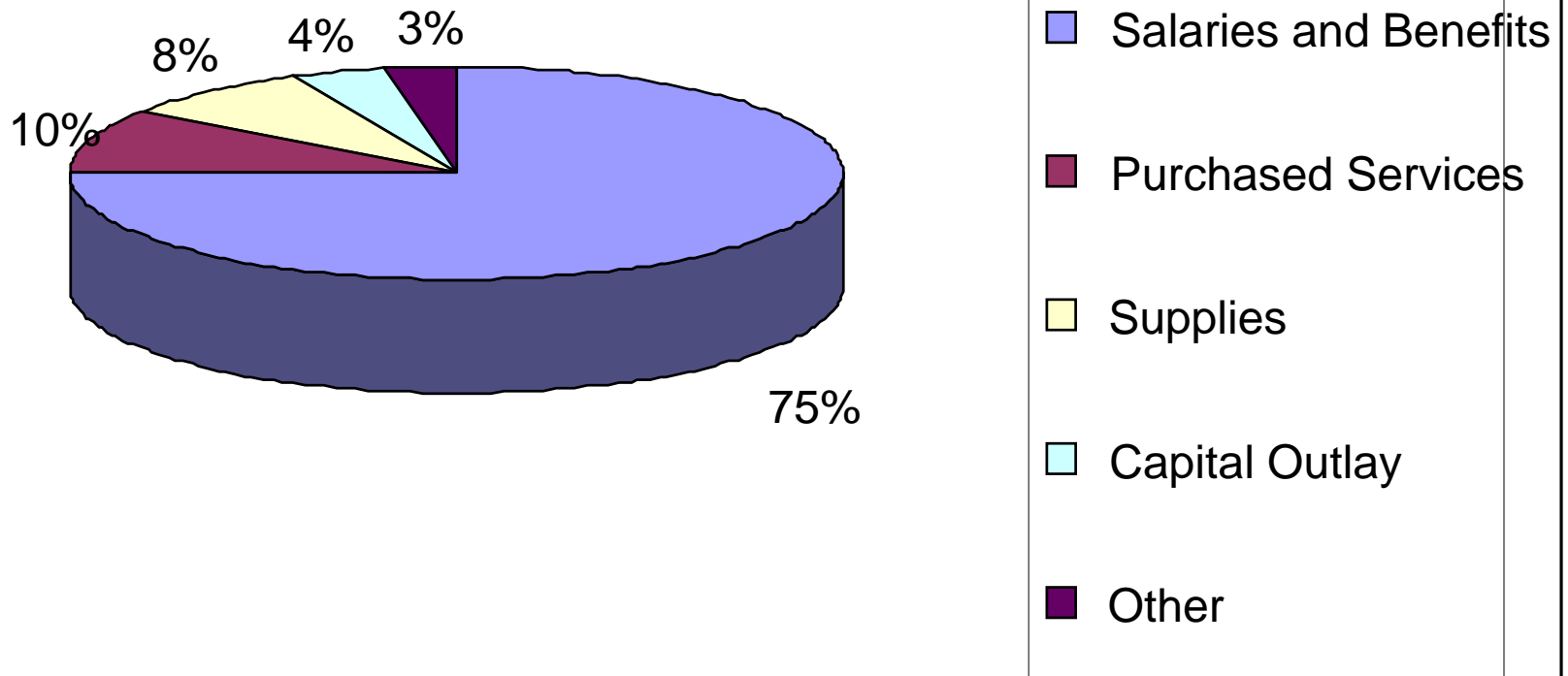


- Instruction
- Student Services
- General Admin
- Bldg Admin
- Bldg Operations/Maintenance
- Pupil Transportation
- Other
- Bonds/ Facilities

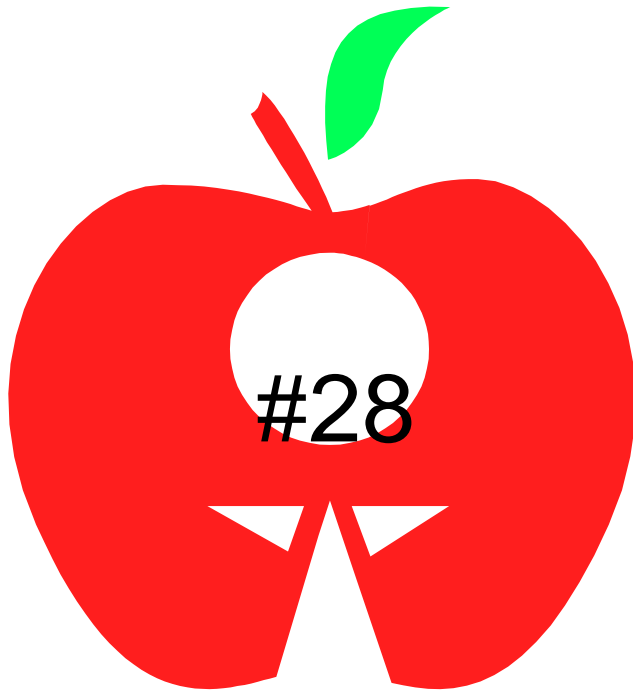


# EXPENDITURE “OBJECT”

**Categories of Expense in School District Budgets  
(1994-2001 Avg.)**



# Montana Ranks #28 for Per Pupil Expenditure



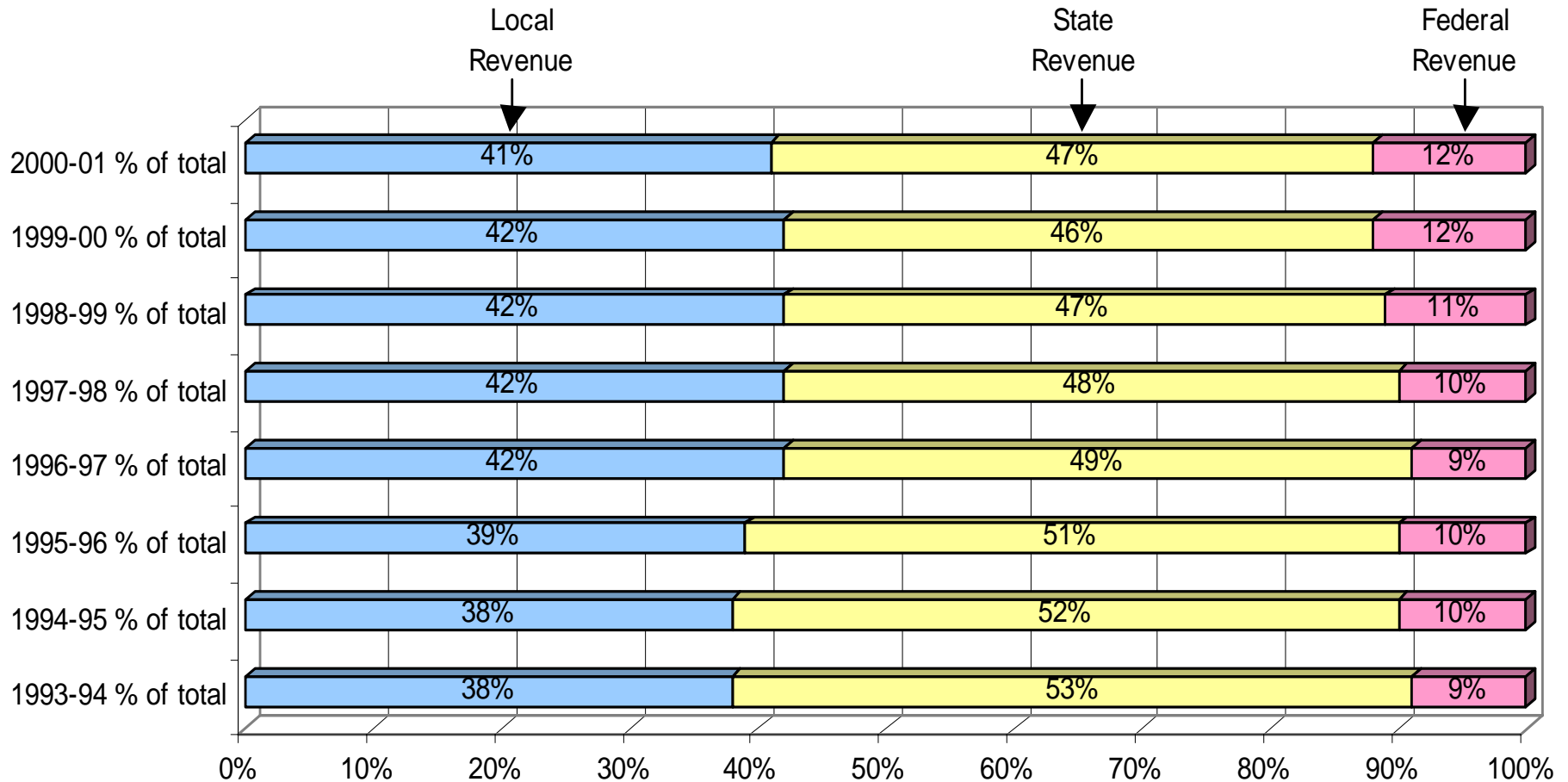
*Report Card on American Education,  
A State by State Analysis 1976-2001*

[American Legislative Exchange  
Council](#)

	Expenditure
Wyoming	\$6,911
United States	\$6,627
Montana	\$6,131
Idaho	\$5,411
South Dakota	\$5,369
North Dakota	\$4,512

# Local taxpayers are picking up an increasing share of school funding

## Montana Statewide Revenues



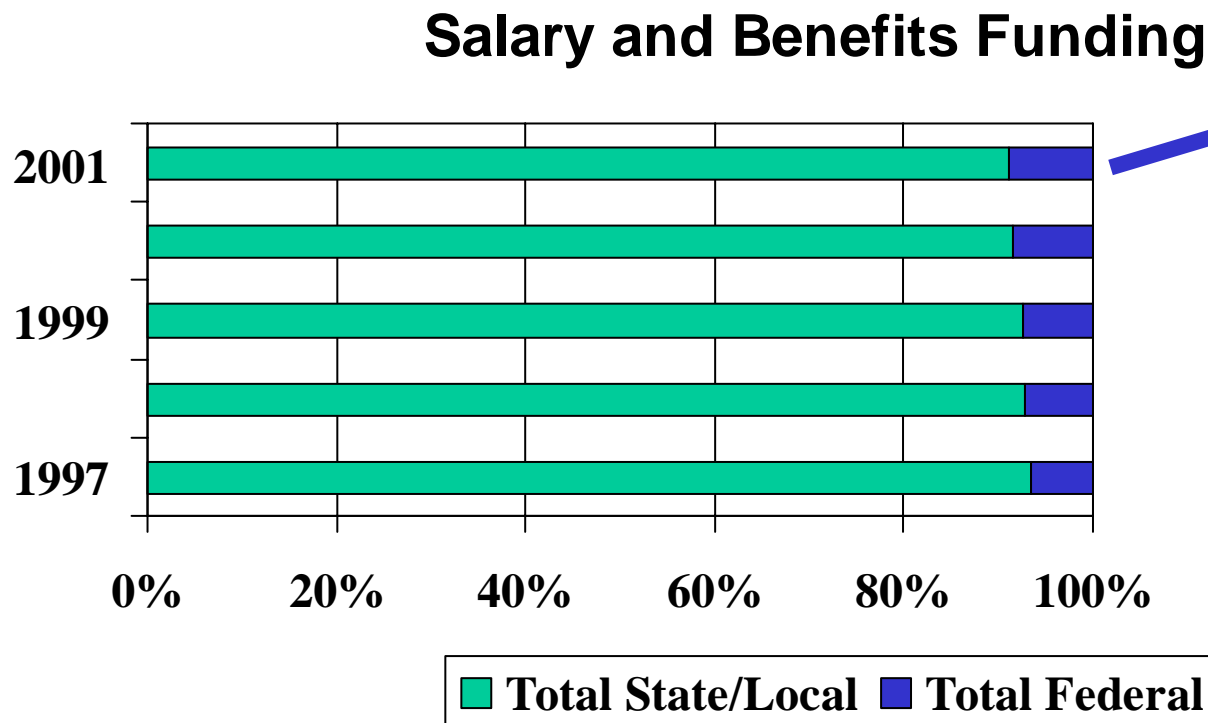
This chart shows revenues for **all** school funds

# Salary and Benefits are 3/4<sup>ths</sup> of all School Expenditures

73%	27%	<b>All other district expenditures</b> purchased services, supplies and capital outlay
	12%	<b>Other district employees</b> Salary and Benefits for facilities staff, custodians, school cooks, bus drivers, coaches, activities coordinator
	8%	<b>Administration</b> Salary and Benefits for building and district administrators, business managers, personnel and school secretary
	53%	<b>Instruction</b> Salary and Benefits for Teachers and Student Services Staff, e.g.guidance counselor,health services, psychological services, speech therapy, audiology, curriculum development and staff development services, library and educational media services.

2000-2001

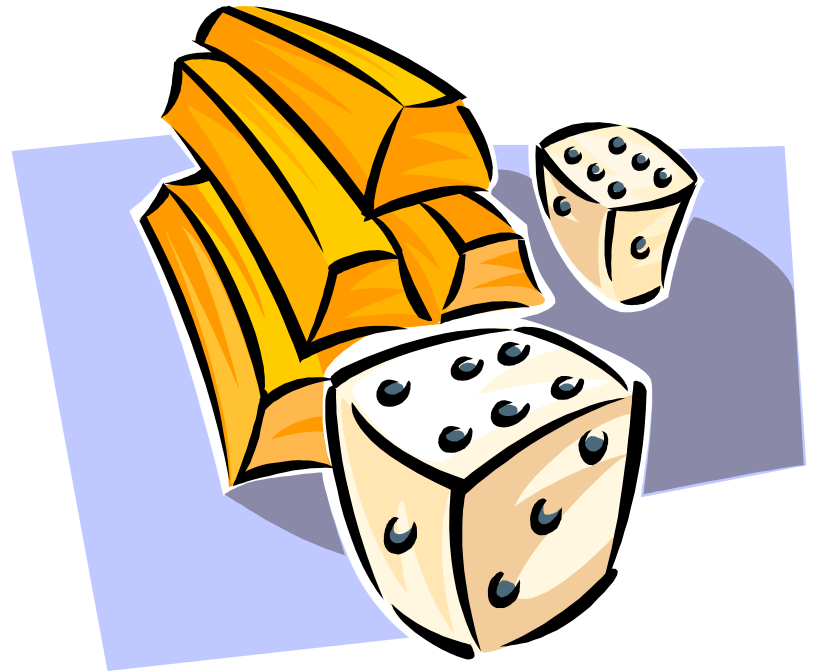
# Federal Share Provides Little Support for Teacher Salaries



Of every \$1 paid for staff only 8.8 cents is from Federal funds

# Lottery funds are no longer a revenue source for education

- **1986** Legislative Referendum 100, the Montana State Lottery Act, passes by **69 percent of the popular vote**, carrying each of the 56 counties. Lottery profits to go to **Teachers Retirement Fund** for the purpose of holding the line on or reducing property taxes.
- **1989** Lottery profits allocated to state equalization aid for schools
- **1991** Lottery profits allocated to the state general fund



Here's the headline:



NEWS / EVENTS

## **“DNRC PRESENTS \$45.1 MILLION DOLLAR CHECK TO LINDA MCCULLOCH FOR MONTANA EDUCATION”**

Now for the rest of the story:

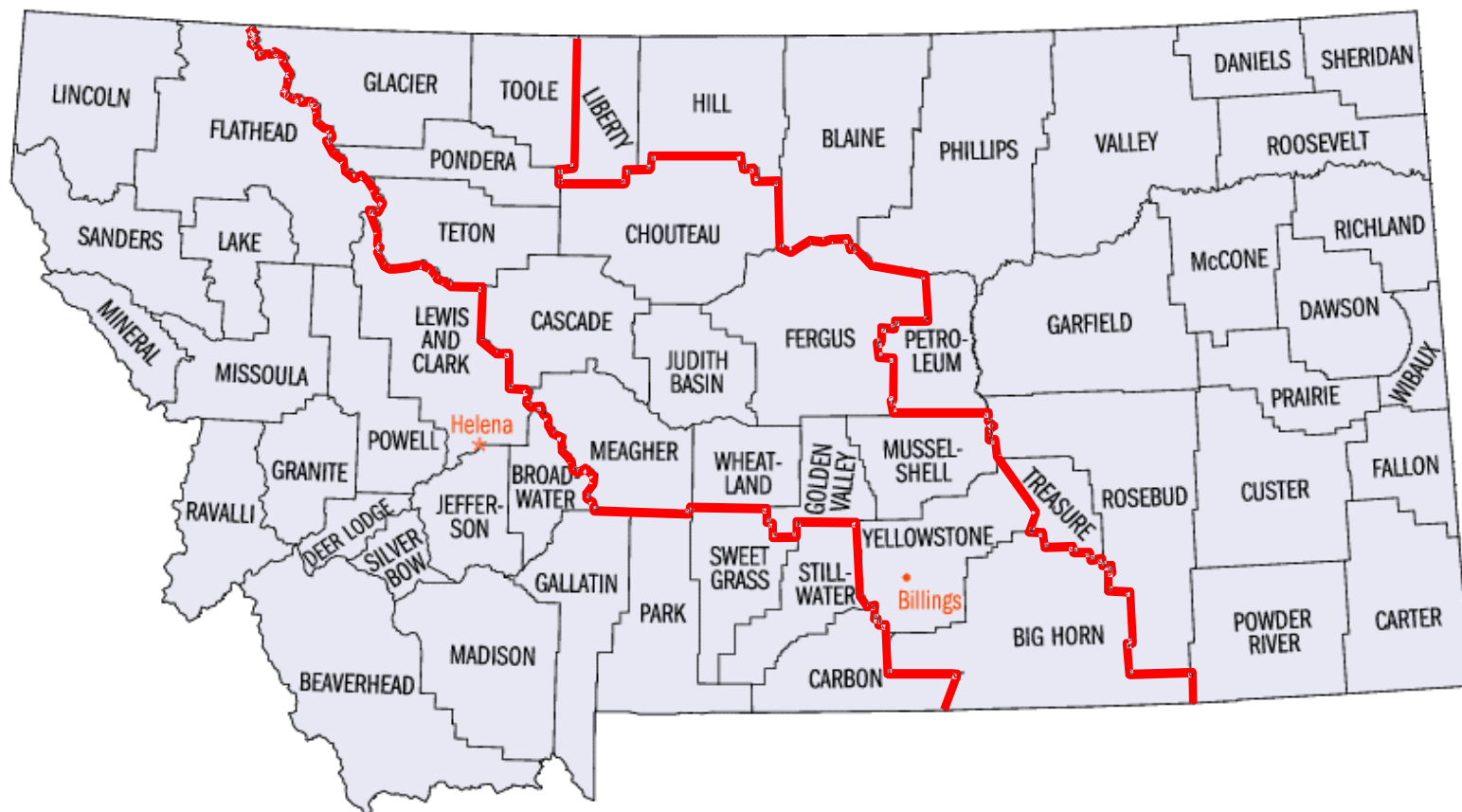
- DNRC distributes revenues for the Common Schools Trust.
- Income and interest earnings from school trust lands are set aside in a “Guarantee Account” and statutorily appropriated to fund K-12 BASE aid.
- The legislature builds this funding into its revenue estimate.
- If income and interest earnings exceed the revenue estimates, the state general fund obligation for schools is reduced.

# School Spending and Enrollment in Montana: What Are the Trends?

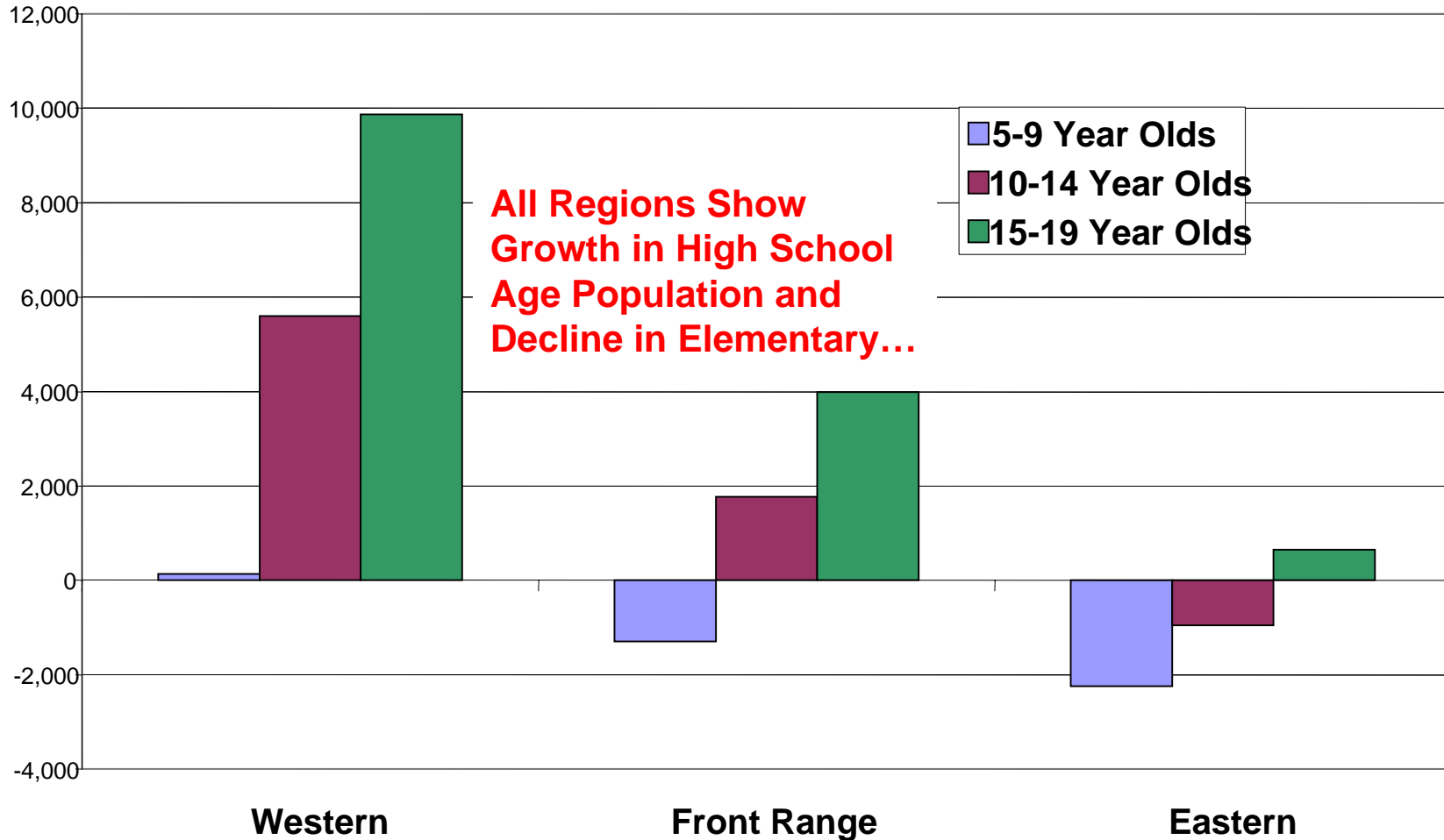
Legislative Forum Presented by:

School Administrators of Montana  
Montana School Boards Association  
Corvallis, Montana  
November 18, 2002



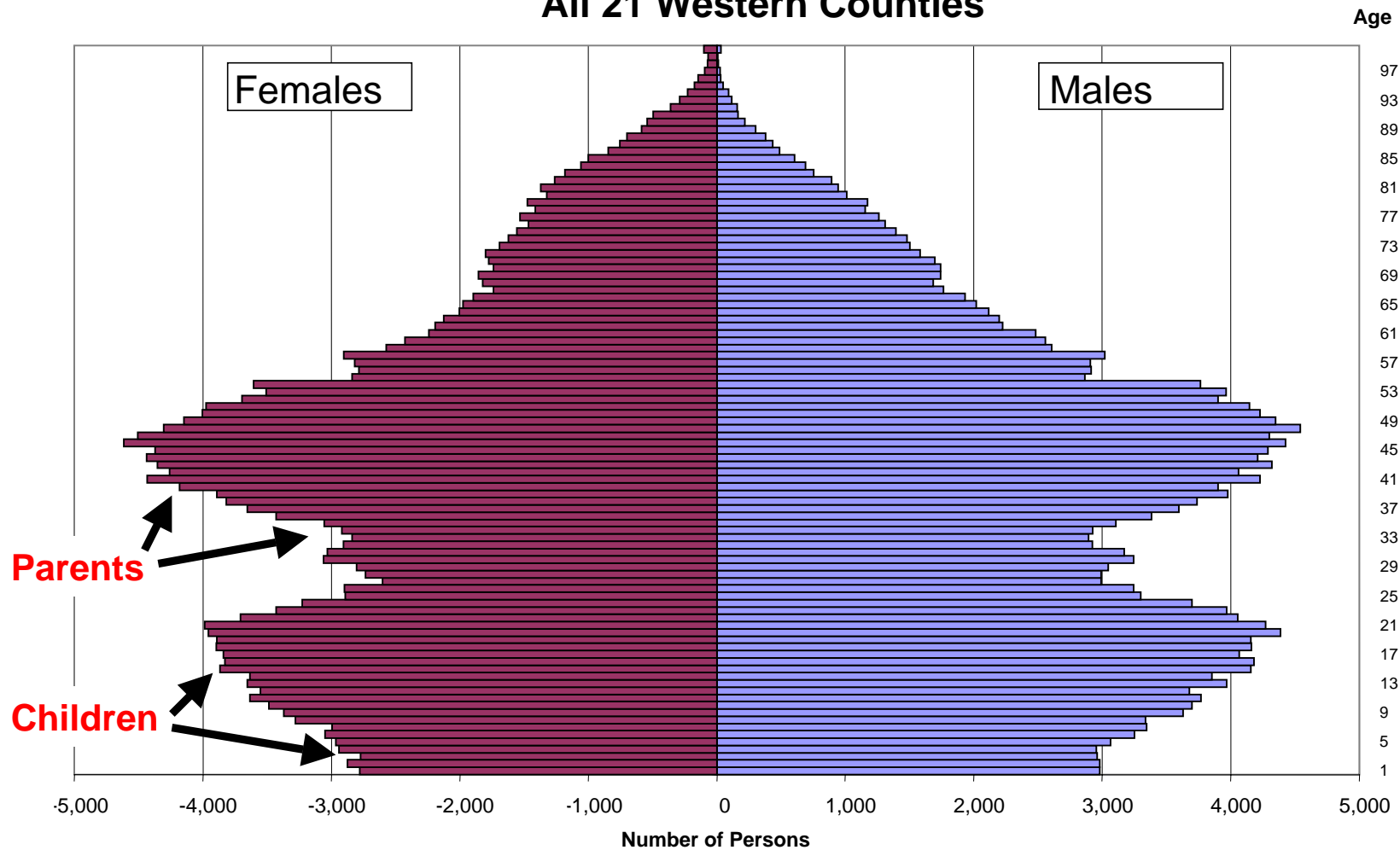


## School Age Population Growth 1990-2000 by Age Group and Region of Montana

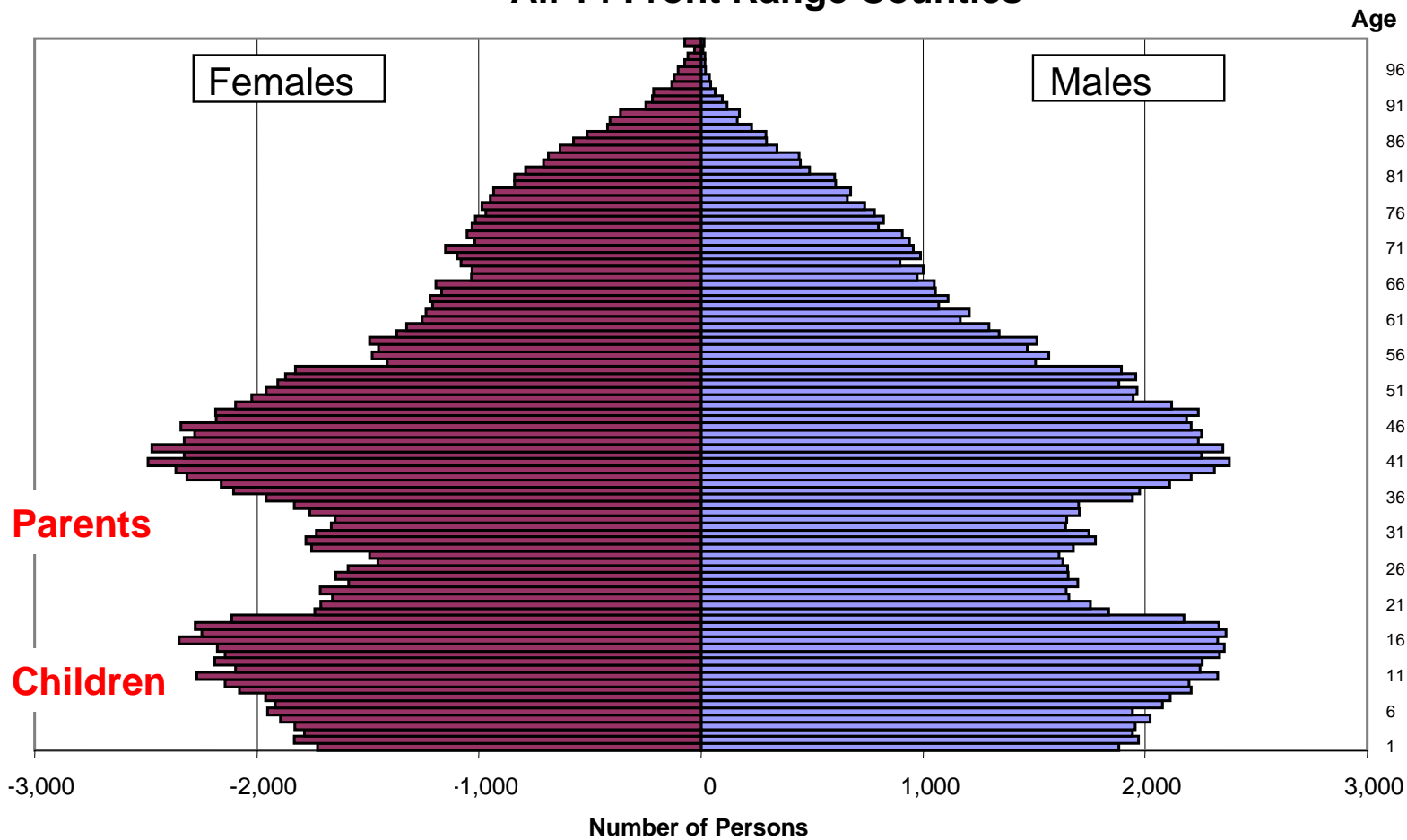


# Single Years of Age: 2000

## All 21 Western Counties

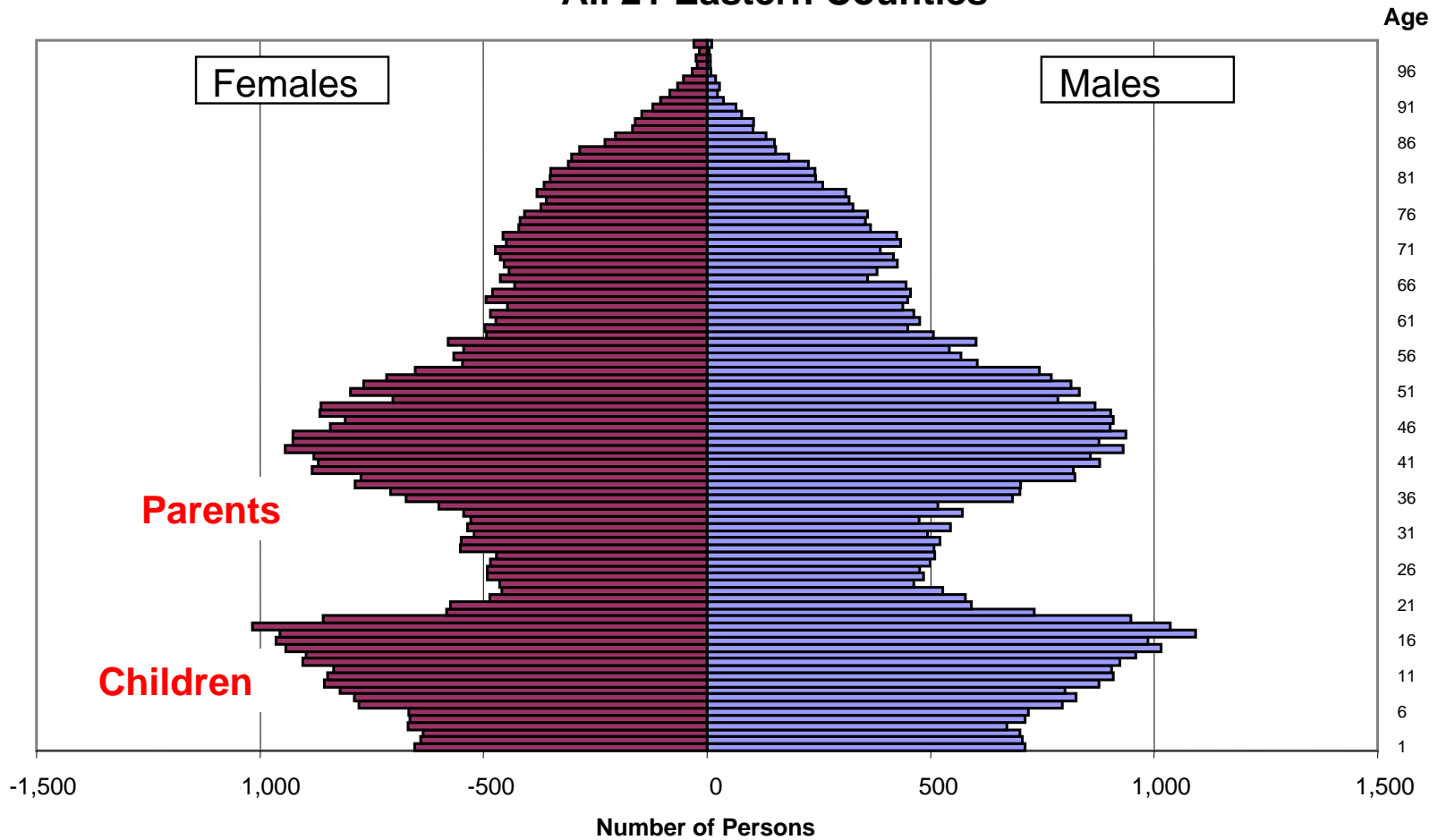


# Single Years of Age: 2000 All 14 Front Range Counties



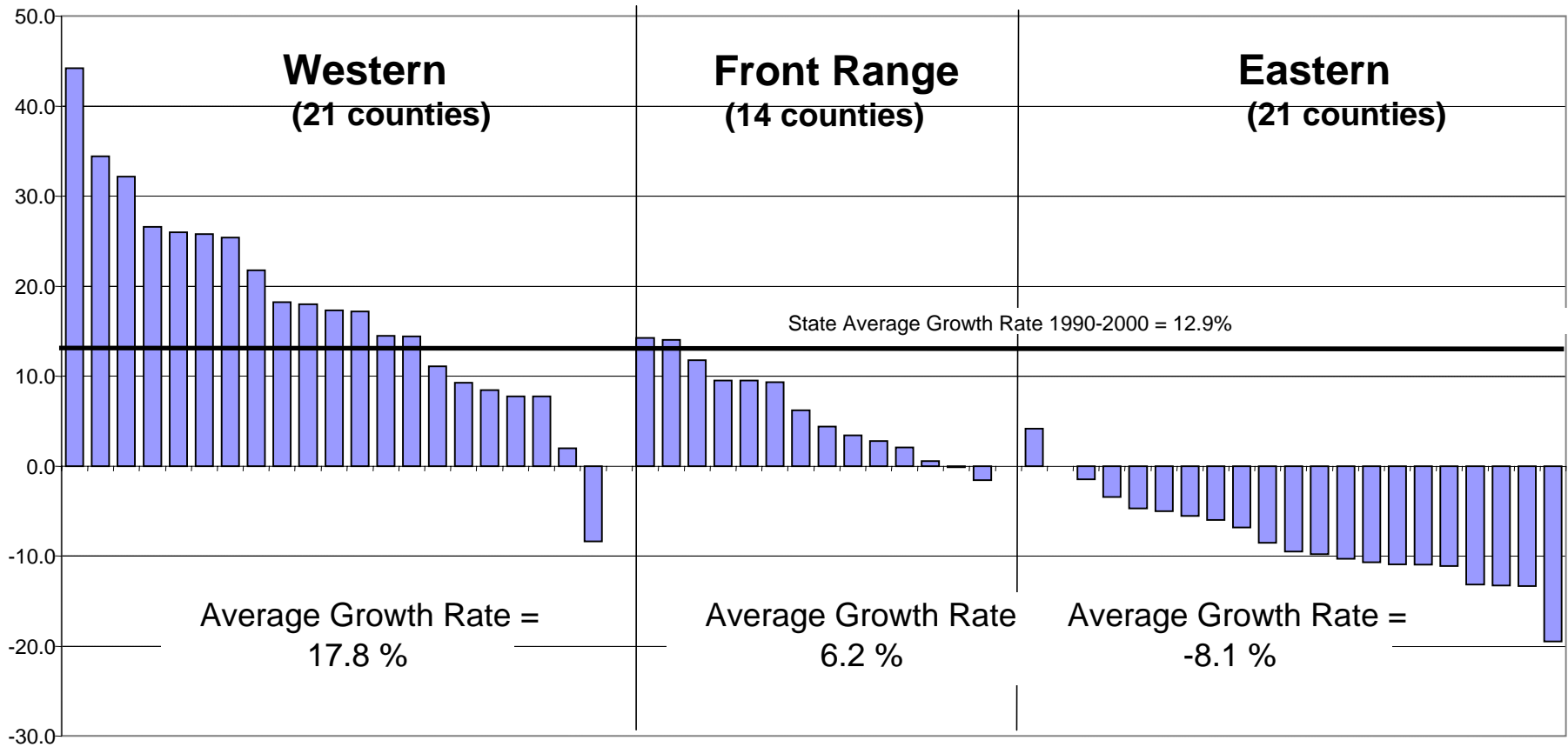
# Single Years of Age: 2000

## All 21 Eastern Counties



# Population Growth Rates for Counties: 1990-2000

## The Three Regions of Montana



# **Summarizing the Facts About Declining Enrollments**

- **Age structure and overall population decline result in fewer students and smaller budgets**
- **Most severe declines are in Eastern Montana**
- **Montana schools are noticing a shift toward a greater number of older students who are more costly to educate**
- **Enrollment declines are recent and will reverse as the “Echo Boom” enters the childbearing years**